Carrington, David

From: Young, John
Sent: Wednesday, August 17, 2011 3:17 PM
To: Carrington, David; Knight, Joe
Subject: Net vs Gross Revenue Pledge

As you know, the existing sewer debt is secured by a net lien on sewer revenues. Under a net revenue pledge, cash available from the system rate base follows a specific flow of funds. Under the flow of funds, operating expenses are paid first, debt service is paid second and excess monies are used for other legal purposes including maintenance and additional capital expenditures.

It is proposed to issue the new sewer debt with a gross pledge of revenues. Under a gross revenue pledge, cash available from the system rate base would first be used to pay debt service. The remaining flow of funds remains the same - in other words, after payment of debt service, excess monies are first used to pay operating expenses. Remaining monies are used to pay maintenance expenses and for future capital expenditures. Rate increase projections have been targeted to meet all requirements, including current projected capital expenditures. So while the flow of funds will be different to protect future bondholders, there should be no net impact on the system's ability to meet all of its obligations. However, the gross revenue pledge should result in a more attractive bond offering which will minimize rate increases.